

2016 Audited Sinking Funds Financial Statements

Date: June 13, 2017

To: Audit Committee

From: Treasurer

Wards: All

SUMMARY

This report presents the City of Toronto's Sinking Funds Financial Statements for the year ended December 31, 2016 to Committee and Council for approval and provides highlights of the Sinking funds' 2016 financial performance and financial condition as of December 31, 2016.

RECOMMENDATIONS

The Treasurer recommends that:

1. City Council approve the 2016 Sinking Funds Statements as attached in Appendix A of this report.
2. City Council approve the \$3.52 million surplus funds in the closed 6% sinking fund be transferred to the active 4% sinking fund.

FINANCIAL IMPACT

The last debenture, to be funded from the 6% sinking fund, matured in 2016, resulting in surplus funds of \$3.52 million. To provide that all sinking funds may have sufficient funds for repayments in the future, it is recommended that these surplus funds be transferred to the 4% sinking fund. Maintaining these funds in sinking funds may avoid future pressures on debt servicing costs that might otherwise arise from the current low-interest environment.

The Deputy City Manager & Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

On an annual basis, the City presents the audited financial statements of the Sinking Funds to the Audit Committee. Following is the link to the 2015 Sinking Funds Statements and Council decision:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU6.2>

When the City of Toronto issues debentures, the *City of Toronto Act, 2006* requires that the principal repayment must be amortized over the term-to-maturity of the debenture or an annual amount be contributed to a sinking fund. Sinking funds are required and established to ensure that adequate financing is available at debenture's maturity. Currently, the City has five (5) separate sinking fund portfolios in support of twenty seven (27) individual debenture issues. The City contributes to the sinking funds to invest and earn income for the purpose of accumulating sufficient funds to repay the sinking fund debenture debt on maturity.

COMMENTS

Sinking fund assets as at December 31, 2016 amounted to \$1.9 billion, a decrease of \$203 million. These assets represent amounts held to discharge sinking fund debenture debt of \$5.6 billion (2015 - \$5.4 billion) issued by the City and maturing in various years between 2017 to 2046 from the City for debentures issued for municipal purposes and from the Toronto District School Board for a debenture that was issued for education purposes.

Unrestricted Surplus

The unrestricted surplus results from the Fund earning amounts greater than the actuarial rate of return that was assigned to a debenture when it was issued. These funds are available to address shortfalls in earnings in future years or could be redirected by the Deputy City Manager & Chief Financial Officer.

Unrestricted Surplus decreased during the year by \$59.8 million to \$44.5 million, as 2016 expenses were \$104 million higher than 2016 revenues, offset by a reduction of \$44.4 million in internally restricted surplus.

Internally Restricted Surplus

The internally restricted surplus resulted from the \$600 million that was deposited into the Sinking Fund in 2010. These funds have been taken into consideration by actuarial valuations and are therefore required to meet debenture retirements.

In 2016, \$44.4 million was transferred to unrestricted surplus, resulting in an internally restricted surplus at year end of \$154 million (2015- \$198 million). The internally restricted surplus is dedicated to meeting future funding requirements.

Revenue and Expenses

Revenues for 2016 decreased by \$16 million to \$272 million (2015 - \$289 million), due to a decrease in investment income of \$36 million and an increase in contributions into the sinking funds of \$20 million.

The decrease in investment income of \$36 million in 2016 is attributable to a decrease in unrealized gain of \$30 million and a decrease in investment and interest income by \$6 million. The weighted average yield for sinking fund investments was 3.97% (2015 - 4.39%).

Expenses increased by \$16.5 million to \$376.6 million (2015 - \$360 million), due to an increase in actuarial requirements for the year.

Closing of the 6% Sinking Fund

The last of the City's debentures, repayable from the 6% sinking fund, matured in 2016. Surplus funds of \$3.52 million remained after repayment of the last debenture and closure of the fund.

Due to the persisted low interest rate environment, the investment rates earned on sinking fund deposits from the issuance in earlier years have been unable to meet the required actuarial rates of return. In 2016, the total sinking fund assets are still sufficient to meet the repayments due to the accumulated surplus funds from earlier years when

interest rates were higher. To ensure that the sinking fund will have sufficient funds for repayments in the future, the Deputy City Manager & Chief Financial Officer recommends that these surplus funds be transferred to the 4% sinking fund to be applied against future maturities in this fund.

CONTACT

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SIGNATURE

Mike St. Amant
Treasurer

ATTACHMENTS

Appendix A: Financial Statements City of Toronto Sinking Funds December 31, 2016